

Message Text

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C O N F I D E N T I A L CARACAS 10876

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TAGS: ENRG, PFOR, VE
SUBJECT: OIL REVERSION - CHARTER OIL COMPANY

REF CARACAS 10317

1. SUMMARY. CHARTER OIL COMPANY OF JACKSONVILLE, FLORIDA, HOLDER OF CONCESSION BLOCK 4 IN PARTNERSHIP WITH UNION OIL, HAS BEEN NOTIFIED THAT IT WILL BE INTEGRATED INTO VENEZUELAN SUN OIL AND WILL NOT CONTINUE AS AN OPERATING UNIT AFTER NATIONALIZATION. THE CONCESSION IS DESCRIBED BY THE LOCAL MANAGER AS "ON THE WAY TO BEING MARGINAL". HE PREDICTED CHARTER WOULD ACCEPT ITS COMPENSATION OFFER. THIS TELEGRAM IS BASED ON PROPRIETARY INFORMATION GIVEN TO THE EMBASSY IN CONFIDENCE AND NOT FOR DISSEMINATION TO THIRD PARTIES. END SUMMARY.

2. CHARTER CONCESSION - BLOCK 4 IN LAKE MARACAIBO WAS ORIGINALLY ACQUIRED IN 1957 BY A CONSORTIUM OF SIGNAL OIL, PURE, SOHIO AND HANCOCK OIL OF LOS ANGELES, WITH EACH PARTNER HOLDING 25 PERCENT INTEREST. SIGNAL BOUGHT OUT HANCOCK AND LATER SOLD ITS 50 PERCENT HOLDING TO CHARTER. PURE ACQUIRED THE SOHIO INTEREST, AND SUBSEQUENTLY MERGED INTO UNION OIL. LEGALLY, THE UNION INTEREST IN THIS BLOCK IS STILL REGISTERED UNDER THE NAME OF PURE OF VENEZUELA.

3. BLOCK 4 PRODUCES 8,500 B/D OF CRUDE AVERAGING 38 API GRAVITY. EACH PARTNER LIFTS AND MARKETS HIS OWN SHARE OF
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THE PRODUCTION. THERE ARE 16 WELLS PRODUCING, OUT OF A

TOTAL OF 47 DRILLED IN THE CONCESSION. THE FIELD WAS DESCRIBED BY THE CHARTER MGR, VALDIS MILLERS (VENEZUELAN OF LATVIAN DESCENT), AS "ON THE WAY TO BECOMING MARGINAL". ORIGINAL WELLS WERE PRODUCING FROM THE EOCENE STRATUM, BUT RECENT WELLS WERE DRILLED TO THE CRETACEOUS AS THE SHALLOWER DEPOSITS DECLINED. IN ADDITION TO ITS PRODUCTION FACILITIES, CHARTER IS A 50 PERCENT EQUAL OWNER WITH SUN OIL COMPANY OF THE PUNTA PALMAS STORAGE AND SHIPPING TERMINAL SOUTH OF MARACAIBO ON THE WEST BANK OF THE LAKE.

4. REVERSION NEGOTIATIONS - INITIALLY, CHARTER OIL BELIEVED IT WOULD REMAIN AFTER NATIONALIZATION AS AN OPERATING UNIT. THE PROPOSED COMPANY HAD EVEN BEEN ASSIGNED THE NAME OF CENTROVEN. THE TENTATIVE UNDERSTANDING WAS THAT NECESSARY TECHNICAL ASSISTANCE WOULD BE CONTRACTED AFTER NATIONALIZATION FOR THE ACCOUNT OF PETROVEN. LAST WEEK THE COMPANY MANAGER WAS INFORMED BY THE MINES MINISTER THAT CENTROVEN WILL NOT BE ESTABLISHED. CHARTER HAS BEEN INSTRUCTED TO PROCEED TO DISCUSS INTEGRATING ITS OPERATION INTO SUN OIL WITH EFFECT FROM JAN 1. THIS WILL NECESSITATE TRANSFERRING CHARTER'S TWENTY-FIVE EMPLOYEES (ALL VENEZUELAN) TO THE NATIONALIZED SUNOVEN OR LAMAVEN (WHICHEVER NAME IS CHOSEN FOR SUN).

5. COMPENSATION - CHARTER CALCULATES ITS NET BOOK VALUE AT \$4 MILLION AND MATERIAL INVENTORY AT \$900,000. UNION WOULD HAVE ABOUT THE SAME ASSETS. MILLERS SAID THAT CHARTER WILL BE PAID CASH FOR ITS OIL INVENTORY AT THE RATE OF APPROXIMATELY \$4.00 PER BARREL COST, PLUS 70 CENTS PER BARREL PROFIT SUBJECT TO THE OIL COMPANY TAX RATE OF 72 PERCENT (LEAVING A NET PROFIT PER BARREL OF 20 CENTS).

6. COMMENT: MILLERS VOLUNTEERED THE OPINION THAT CHARTER AND UNION WOULD ACCEPT THEIR COMPENSATION OFFERS AS THE BEST COURSE UNDER THE CIRCUMSTANCES, BUT HE INDICATED A CERTAIN AMOUNT OF NATIONALISTIC PLEASURE AT THE PROSPECT OF NATIONALIZATION AND WE ARE FAR FROM CERTAIN THAT HE ADEQUATELY REFLECTS HOME OFFICE THINKING. END COMMENT.

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